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# WEEKLY SUMMARY

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## H I G H L I G H T S

The Kremlin's aggressive attempts to extend and consolidate its control in Europe this week met defiance in Berlin and in Belgrade. In Berlin, the western powers stood firm against intensified Kremlin efforts to force an overall German settlement on Soviet terms. The western powers met new and stringent Soviet embargoes on rail, road, and barge shipments from the western zones to Berlin by steadily increasing air lifts and by announcing a common determination to keep their feet firmly planted in Germany's traditional capital. In Belgrade, Marshal Tito emphatically defied the Kremlin's open efforts to reduce Yugoslavia to the status of a vassal state. Tito flatly rejected the Cominform's sharp criticism of himself and his regime and challenged Soviet efforts to exact unquestioning subservience from the Satellites by his open advocacy of a Balkan federation (see page 8).

Both actions presented the Kremlin with dilemmas. If the USSR elects to maintain its present restrictions in Berlin, it may effectively be confronted with a western effort to supply the blockaded sectors by air lift; if it now relaxes the embargoes, it risks loss of prestige. The USSR consequently is seeking a face-saving formula within Germany for reconvening the Allied Control Council (see page 3). To regain lost prestige, the USSR likewise feels the need to take some decisive action against Tito, but it is faced with the unpleasant realizations that drastic retaliation might prompt Tito to withdraw from the Soviet bloc and that any accommodation with Tito will involve considerable loss of face. The USSR therefore is taking pains to treat this dispute as one merely between Communist parties and not between governments.

In Germany, therefore, the USSR probably will not for the present attempt to press a definitive showdown but instead will seek to engineer negotiations which could be broadened to include such major issues as the Ruhr. In Yugoslavia, the

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USSR will seek some solution that will protect Party prestige but prevent Yugoslavia's defection; it will concurrently tighten its controls drastically in the other Satellites against the unlikely possibility that others might follow Tito's lead. In the long run, the Kremlin will seek by means short of war to eliminate Tito and his lieutenants. At the same time, Tito will seek a rapprochement with the Kremlin on his terms. He will take steps to strengthen his position internally while continuing to support Soviet foreign policy and to maintain close relations with the other Satellites. Tito will probably not extend any feelers to the west, at least not until his negotiations with the Kremlin appear fruitless.

The Palestine four-week truce came to the end of its third week, having survived two recent threats to its existence (see page 12). The growing uneasiness of the truce probably reflects in part the increased feeling among Arab and Jewish leaders that UN Mediator Bernadotte will be unable to arrive at a formula to which both parties in the Palestine dispute can agree.

In the Far East, China is in the throes of its worst economic crisis to date. News of Communist capture of the provincial capital Kaifeng touched off an inflationary explosion which caused the Chinese dollar to depreciate 100% in 48 hours (see page 14).

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**SECRET****WESTERN EUROPE****GERMANY**

The Soviet Union has further threatened the position of the western powers in Berlin by increasing existing restrictions on communications between the city and the western zones. The recent Soviet action in cutting off all rail communications and road and barge traffic represents the near-maximum curtailment of ground facilities within Soviet capabilities. On 23 June when the new embargoes were put into effect, the western sectors had food stocks adequate for a six-week minimum German ration and fuel stocks to supply light, power, and water for three weeks. The Soviet action, ostensibly taken in retaliation against the western decision to introduce the new west German currency in Berlin, has two possible objectives: either to force the western powers to negotiate on Soviet terms regarding Germany, or failing that, to force a western power withdrawal from Berlin.

The USSR does not seem ready to force a definite show-down but for the present appears more inclined to compel the western powers to negotiate locally regarding Berlin in the hope that such negotiations could be broadened to include Soviet demands on major issues such as the Ruhr. The USSR is attempting by various means to find a face-saving method within Germany of reconvening the Allied Control Council. Having abandoned its recent efforts to use the Polish mission in Germany for this purpose, Soviet officials have apparently directed the Communist-controlled Socialist Unity Party representatives on the Berlin City Assembly to propose that city officials ask that the ACC be convened. Present indications are that the Assembly will make such a request and the USSR will seize upon it as a means of reconvening the Council and possibly also the Kommandatura. Although Communist leaders in Soviet-controlled areas have probably prepared an action program designed to create a revolutionary situation in the western sectors, the USSR presumably will not direct that such a program be put

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**SECRET****GERMANY**

fully into effect until it has exhausted less drastic pressure devices and until public unrest develops.

The Soviet Commander, Marshal Sokolovsky, has attempted to reassure the Germans and the western powers that his new restrictions may only be temporary. The western powers are inclined, however, to take Sokolovsky's remarks with a large grain of salt. For the present, the German population in the western sectors continues markedly anti-Soviet and supports the strong stand taken by the western powers. Its faith has been further strengthened by determined US-UK efforts to fly in supplies and by continued evidence that the UK and French position remains firm. This German population may be expected to give loyal and effective support to the western powers, unless its will is sapped by starvation or its determination weakened by a belief that a western withdrawal is inevitable.

Soviet propaganda and policy moves in Germany during the past week have been very closely coordinated. Soviet-licensed newspapers in the Soviet sector of Berlin hammered at their "panic" theme of hunger and unemployment in the western part of the city. Propaganda both within and without Germany emphasized that the western powers were forcing a "split Germany" upon the German people. The Warsaw Conference accused the western powers of splitting Germany down the middle while Soviet-licensed papers in Berlin demanded that the western powers declare themselves ready to conclude a peace for all of Germany. Meanwhile, the USSR kept the backdoor open from the mounting Berlin impasse by carefully explaining in all propaganda releases that the Soviet restrictive actions are made necessary by technical difficulties rather than by political motives.

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**SECRET****FRANCE**

DeGaulle's efforts to win labor support by direct action, rather than by a general and theoretical appeal, will probably be intensified in the near future and maintained until the October elections. At the height of the Clermont-Ferrand strike disorders, DeGaulle's Rally of the French People (RPF) instructed its factory cells to press for wage increases at once in an effort to gain labor support. The RPF was told to seize the initiative from the Communist-dominated General Confederation of Labor (CGT) wherever possible. At the Simca plant near Paris, the RPF cell underscored its demand for a full 20% wage increase with a token half-hour strike in contrast to the proposed 48-hour strike of the CGT. This change in tactics suggests that the RPF may wish to obtain control of labor before, rather than after, DeGaulle makes his bid for power. This change also represents the most tangible effort yet made by DeGaulle to rally the Left, which has remained the weakest sector of the RPF's support.

**ITALY**

Greatly intensified Communist activity in Italy, including a full-scale attack against the European recovery program and a general strike scheduled for 2 July, may be expected as a result of new instructions received from the Cominform. In accord with these orders, Italian Communists will probably denounce the London agreement on Germany as a partitioning act and will defend any Soviet counteraction as moves to assure eventual unity of Germany under a "democratic" government. The Communists may also engineer an ostensible separation from the Left Wing Socialist Party in order to increase the effectiveness of that group. If the Socialist Party at its current Congress should swing from pro-Communist to a more moderate position, the Communists might abandon the Popular Front device and demand that pro-fusionist Socialists merge with the Communists. This would enable the Communists to pose as the only party representing the Italian working class, and as such, claim the right to participate in the Government.

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**SECRET****AUSTRIA**

The breakdown of Austrian treaty negotiations has resulted in a firmer anti-Soviet attitude by many Austrian officials and sharp counteraction by the USSR. Austrian temerity was climaxed recently by Dr. Migsch, Minister of Power, whose anti-Soviet speech drew a strong protest from the Soviet Commander. The Austrian Government promptly and vigorously rejected the protest. Shortly after the Migsch incident, USSR officials arrested Anton Marek, key Austrian police official, on charges of espionage against Soviet occupation forces. The Austrian Government immediately protested this action to the Allied Control Council, but USSR members of the Council refused to discuss the complaint at the last meeting.

**NETHERLANDS**

The slight strengthening of the Dutch conservative parties, which is expected from the voting in the 7 July Dutch elections, may make it more difficult for the Government to compromise in the Netherlands East Indies discussions. The Dutch Government may, however, be exaggerating the importance of the conservative swing in order to create the impression that public opinion will not support further concessions to the Republic Indonesians.

**SWEDEN**

Sweden's 1949 production drive may fall short of the target because of the continued drain on foreign exchange reserves and the depletion of materials. A critical shortage of hard currency available for imports continues to develop despite slow progress by Sweden in re-establishing its prewar trade pattern with western European nations. During April, the UK, the US, Belgium, and France ranked in that order for Swedish exports and imports. If Sweden can squeak through 1949 without a foreign exchange crisis necessitating increased restrictions on imports, it will probably be able to weather the postwar adjustment.

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**SWEDEN**

The Swedish Government's attitude of stubborn neutrality appears to be relaxing slightly. The impact of international developments, Sweden's fear of being isolated, and British, French, and US efforts to emphasize the unreality of a strictly neutral policy have combined to shake the Swedes somewhat. No announced change in the Swedish position can be expected before the September general election, but the Foreign Minister probably will stop trying to pledge Norway and Denmark to a neutral Nordic bloc.

**THE RUHR**

The problem of increasing the Ruhr coal production continues to defy solution. The uncertainty of management concerning eventual ownership of the mines, poor labor discipline, and unsatisfactory condition of the miners and their equipment contribute substantially to the lag in Ruhr production. Incentive programs have not provided a means for increasing production per man-hour, although the increase in the number of miners has raised the total number of tons mined. A 15% wage increase for miners, plus further mechanization of the mines, may be tried next in an effort to bolster Germany's contribution to the European recovery program.

**SECRET****E A S T E R N   E U R O P E****YUGOSLAVIA**

Tito's two-fold defiance of the Kremlin's authority, in flatly rejecting the Cominform's criticism and in advocating a Balkan federation, has confronted the USSR with the necessity of making a decision which will have far-reaching effects upon the Soviet Union's eastern European empire and upon the Kremlin's control over Communist Parties throughout the world. Although the Kremlin undoubtedly feels the need to take some decisive action to regain prestige, it is faced with the unpleasant realization that: (1) drastic retaliation against Tito might prompt him to withdraw from the Soviet bloc; and (2) any accommodation with Tito will mean a considerable loss of face. This decision is complicated by the further realization that the Cominform's emphasis upon the "internationalist" character of Communism will probably weaken the Communist Parties of western Europe through the defection or elimination of "nationalist" elements and fellow travellers. The Kremlin's awareness of its difficult position is indicated by its treatment of this dispute as one merely involving Communist Parties and not governments. The Kremlin may, therefore, continue to handle the matter on a Party level in the hope of reaching some solution which will both be face-saving and prevent the defection of Yugoslavia from the Soviet bloc. While seeking a solution, however, the USSR can be expected to tighten its controls drastically over the other Satellites in order to prevent any emulation of Tito's example. Moreover, the USSR will eventually exert maximum pressure, short of war, to eliminate Tito and his lieutenants.

Tito's continued refusal to bow to the Kremlin reflects his realization that the die is cast and any precipitate retreat on his part would be tantamount to political suicide. By following his answer to the Cominform with a public announcement of a detailed Yugoslav Communist Party program and

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**SECRET****YUGOSLAVIA**

referring only indirectly to the Cominform resolution, Tito indicated that he still hopes to force the Kremlin to modify the Cominform decision and accept Yugoslavia as a full-fledged partner in the Soviet family rather than as a vassal of the USSR. Thus, Tito will probably extend no feelers immediately to the west, because such action would further jeopardize any chance of a favorable rapprochement with the Kremlin. Moreover, Tito's re-affirmation of the principles of Marx and Lenin and his pledge of continued co-operation with the USSR in foreign policy matters have increased the difficulty of achieving any early rapprochement with the west except in the sphere of economic relations. Meanwhile, Tito can be expected to take steps to strengthen his position internally while simultaneously supporting Soviet foreign policy, and maintaining close relations with the other Satellites. However, whenever Tito considers that rapprochement with the Kremlin becomes unlikely, he will probably extend cautious feelers for western support against the USSR.

Communist Parties in the other Satellites are too vulnerable to Soviet force to risk a break with the Kremlin and therefore will probably not in the near future emulate Tito's recent example in defying the Cominform. However, if Tito wins substantial concessions from the Kremlin or is successful in breaking away from Kremlin control, the "internationalist" Communists in the Satellites will face greater obstacles in controlling those "nationalist" Communist elements (particularly in Bulgaria and Hungary) which are reportedly already rebelling against blind obedience to the Kremlin. Tito's action confronts Bulgaria with a more difficult decision than any other eastern European nation. Bulgaria and Yugoslavia have achieved close economic and military cooperation since the end of World War II. Moreover, both

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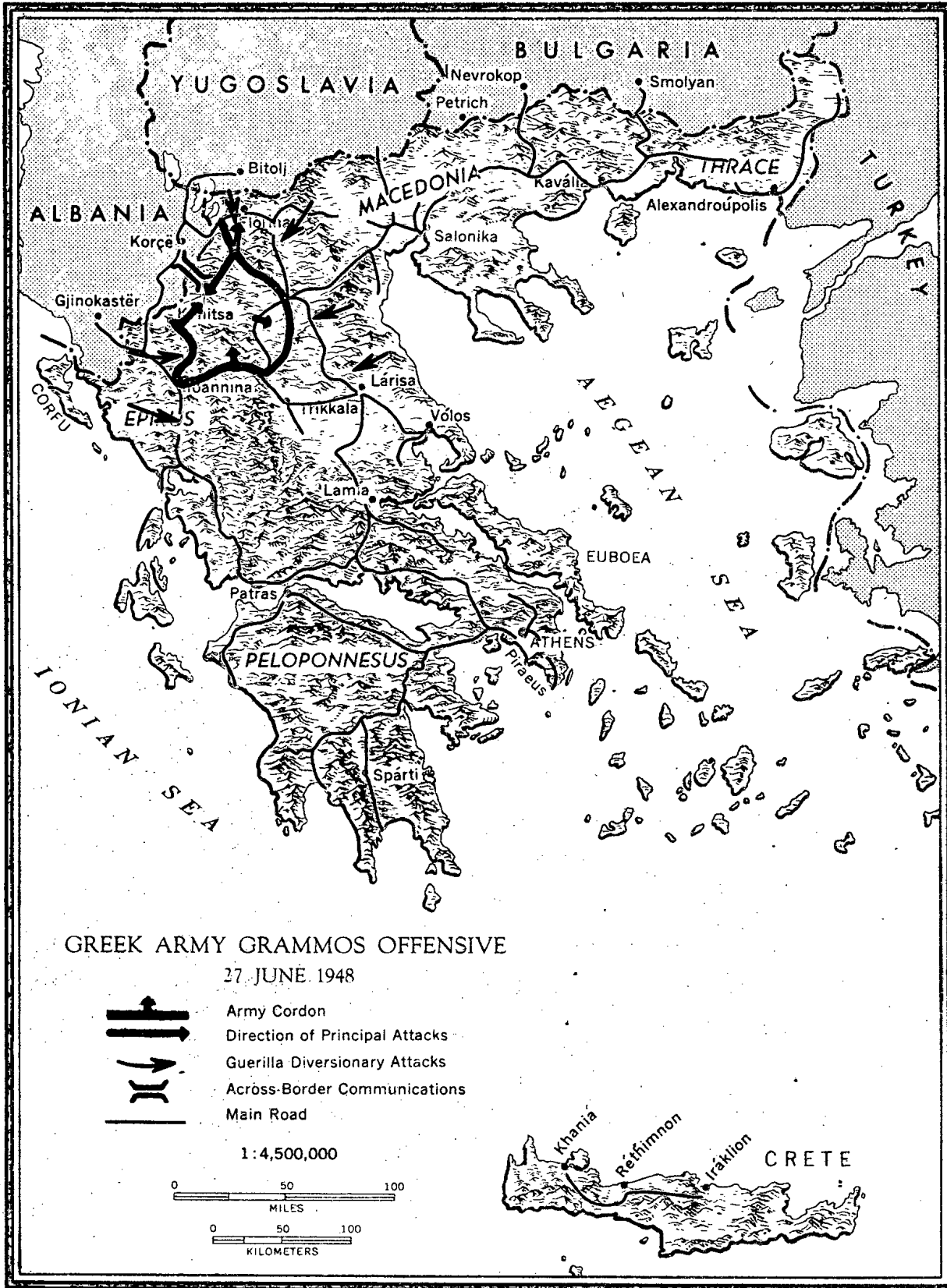
**SECRET****YUGOSLAVIA**

countries are involved in conflicting claims on Greece and Macedonia. Although the possibility cannot be eliminated that Bulgarian Communist Premier Dimitrov will accept Tito's bid for a Balkan federation, it is more probable that Dimitrov will continue to hew to the Kremlin line because: (1) his rivalry with Tito for leadership in the Balkans militates against any rapprochement; (2) through his long training in Moscow and his association with the Comintern, he has grown too internationalist-minded to defy Communist Party discipline; and (3) he realizes that the USSR could retaliate -- by force, if necessary -- effectively against Bulgaria.

The recent Cominform blast against Tito and the stand-to-the-death statements of various Communist leaders against the European recovery program reveal that the expanded duties of the 1948 Cominform include the role of inter-Satellite taskmaster for the Kremlin. As a result of the dispute with Tito, the Cominform headquarters will probably be moved from Belgrade to Prague. Czechoslovak Communists have already announced that future editions of the official "Cominform Journal" will be distributed from the Czechoslovak capital. Besides its action in disciplining Tito, the Cominform apparently also laid down for all Party members a strict line to be taken concerning the European recovery program. Since the meeting, French, Italian, and Trieste Communists have publicly stated that they will exert every effort to destroy the European recovery program. This is in strong contrast to public statements made by French and Italian Communist leaders prior to the Cominform meeting which were comparatively lacking in hostility.

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**SECRET****GREECE**

The Greek Army's major offensive against the Grammos Mountain border area -- "Operation Crown" -- does not now appear to justify the general optimism resulting from the first day of fighting. On the basis of the incomplete reports available, it appears that the army is meeting stiff resistance from prepared guerrilla positions and, except for a few heights on the edge of the area which were captured at the outset, has gained little ground. Lack of reserves may cause a sudden guerrilla collapse but, since bandit casualties have been light thus far, such an outcome does not seem immediately likely. So far, the guerrillas have not only maintained their defenses stoutly but have also counterattacked -- both from without and within the operational area. Several guerrilla attacks made on Greek Army lines of communications have damaged main supply roads and made it necessary to divert army troops needed elsewhere.

Although the specific reasons for the Greek Army's present difficulties are not clear, it appears that field commanders are relying too much on artillery and air strikes to soften the way for the infantry. The capabilities of artillery in mountain fighting will remain limited, and the effectiveness of the Air Force (already working to the limit of its capacity) is likely to decline as pilots become exhausted and their planes non-operational in trying to fulfill excessive ground-support requests. In the end, Operation Crown will probably result in serious losses to the guerrillas. However, because the offensive has long been publicized as the death blow to the rebels, anything less than spectacular success will have serious political repercussions in Athens.

Greek-Bulgarian negotiations to resume diplomatic relations ended after a brief and unsatisfactory meeting between representatives of the two countries. Little was accomplished at the meeting and little hope is held for any constructive action in the near future.

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**SECRET****NEAR EAST - AFRICA****PALESTINE**

The UN's four-week cease-fire agreement for Palestine, now ending its third week, has already faced two threats to its continued existence. The first threat, involving an Irgun (Zvai Leumi) attempt to land a \$5 million arms cargo at Tel Aviv in violation of the truce, was halted by the firm action of Hagana troops under orders of the Provisional Government of Israel. The other threat to the cease-fire occurred in the action of Egyptian forces -- according to charges made by Count Bernadotte's staff -- in firing on a UN observer plane and in preventing a UN-checked food convoy from resupplying the isolated Jewish settlements in the Negeb. Count Bernadotte is attempting to handle the matter without recourse to the Security Council.

The action of the Provisional Government of Israel in using troops against Irgun brought the resignation of two rightist Cabinet ministers, who protested against what they called arbitrary action by Premier Ben Gurion, but they later returned to the Cabinet after Ben Gurion received a vote of confidence in the State Council. Furthermore, Irgun leaders appealed to their followers to do no further fighting against Jews, and, after first breaking with the Government, later urged their men to cooperate with Hagana. The Government was thus clearly successful in the first test of its ability to maintain its internal authority.

**SAUDI ARABIA**

A formal UK-Saudi Arabian treaty remains unlikely for the present, although there are indications that discussions of joint defense may be re-opened. The British would prefer to place the emphasis upon development of air fields, while Ibn Saud is primarily interested in building up his army as a force in the Arab world. Considerable time will be required to work out a satisfactory compromise between these two extreme views.

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**SAUDI ARABIA**

Principal stumbling blocks to Anglo-Saudi Arabian cooperation in the past were Ibn Saud's distrust of Iraq and Transjordan (allies of the UK) and British insistence upon bases and a joint defense board which Ibn Saud viewed as military occupation in disguise. The forthcoming meeting between Abdullah of Transjordan and Ibn Saud may allay the latter's distrust of Abdullah and thereby eliminate one of the major obstacles to Anglo-Saudi Arabian defense planning.

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## F A R E A S T

### CHINA

China's most severe nationwide economic crisis to date was set off recently by the fall of Kaifeng to the Communists. The Chinese dollar depreciated 100% in 48 hours as Shanghai went on a buying spree. Rice prices reacted more slowly, although they reached a new high shortly after the fall of Kaifeng. Long-term factors contributing to this economic decline are the growing military strength of the Communists in Central China, extensive dumping of printing-press currency in commodity centers, governmental ineptitude in applying economic controls, and general ineffectiveness of government administration.

### INDONESIA

Although the Netherlands delegation of the UN Good Offices Committee (GOC) in Indonesia refused to discuss the recent US-Australian proposals and thereby stalled indefinitely the progress of the GOC, there are now indications that the Netherlands Government at The Hague is reviewing the US-Australian paper and may be favorably disposed toward several of the proposals contained in it. Representatives of the Netherlands in Washington have protested to the Department of State that the US-Australian proposals would limit Dutch sovereignty much more than it would be restricted by the terms of the January 1948 Renville agreement. A flat rejection by the Dutch of the US-Australian proposals would further complicate the GOC's job of finding a satisfactory basis for further negotiations.

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### WESTERN HEMISPHERE

#### BOLIVIA

Bolivian tin production may again become as vitally important to the US economy as it was during World War II. Communist influence and disturbances are increasing in the Malayan states -- one of the two other principal world sources of tin -- and these disturbances may seriously affect the supply to the US from this area. If the pending Argentine-Bolivian Commercial Treaty becomes operative, Argentina's economic influence in Bolivia would be greatly strengthened, thus enabling Argentina to drain even larger quantities of the material from Bolivia than the treaty stipulates. Such a development would adversely affect Bolivia's ability to supply its quota to the US in accord with an existing US-Bolivian agreement which expires in 1950.

#### VENEZUELA

Representatives from the Venezuelan Army have been placed in key government posts during President Gallegos' current visit to the US, presumably in an effort to allay army fears that ex-President Betancourt (leader of the Government Party, Accion Democratica) might attempt to increase his political influence while Gallegos is abroad. The latest governmental appointments will allow the incumbents to watch each other from strategic positions and to control Accion Democratica during the existing tense situation. The fact that the army has now a real stake in political stability will reduce the prospects of trouble in the weeks immediately ahead.

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